Pension Report Highlights Need for Oversight and Transparency in Local Public Employees’ Retirement Plans

~ LeRoy Collins Institute’s newest research shows pensions and retiree health insurance obligations are problematic for Florida’s local governments ~

TALLAHASSEE, Fla. – The LeRoy Collins Institute (LCI) released their latest report, Trouble Ahead: Florida Local Governments and Retirement Obligations, which reveals that local government employee retirement obligations are a bigger, more complex ticking time bomb than previously recognized. Findings show pension costs combined with the costs for health insurance benefits promised to retirees make up an average of approximately 8.1 percent of county spending and an average of approximately 8.3 percent of the sample 50 cities spending.

“Our goal with this research was to look objectively into the local public retirement system in Florida and make recommendations,” said Carol Weissert, Florida State University (FSU) political science professor and LCI director. “For more than a year, we’ve been compiling a pension and health insurance database for counties and the state’s largest cities that spans the last five years. In short, we have the most comprehensive data on Florida local governmental retirement benefits that exists.”

Through their efforts, LCI researchers and board quickly identified a major, but largely overlooked, component of local retirement obligations involved health insurance benefits, otherwise known as other post-employment benefits (OPEBs). In FY 2009, a typical Florida county had an outstanding liability of nearly $30 million to cover health insurance and other non-pension benefits. Although these health insurance expenses are significant and growing, OPEB obligations are currently not reported to or overseen by any state agency. In contrast, pension funding is reported to the Florida Department of Management Services (DMS) and reviewed by state actuaries at least every three years.

“More people are becoming aware public pensions need reform, but have no idea about these growing OPEB agreements. This lack of transparency led the LCI board to recommend the public have easier access to the contractual obligations their tax dollars are on the hook for in a form that taxpayers can easily understand,” said David Matkin, assistant professor in FSU’s Askew School of Public Administration and Policy and lead LCI researcher on Trouble Ahead. “It’s worrisome that neither cities nor counties are investing much money to fund the promises made to their retiring employees. Counties are only investing approximately 40 percent of what they need to and large cities only 31 percent.”

Trouble Ahead also reports in FY 2009, Florida county pension contributions alone averaged more than $21 million, a sharp uptick from contributions made only six years earlier of nearly $12 million. Figures in the report show costs have risen from 3.5 cents on every dollar to nearly 5 cents – a 42 percent increase in pension’s share of county governmental expenditures. Similarly, a reviewed representative sample of 50 Florida cities found pension contributions averaged $2.28 million in 2009 – up from $800,000 in 2003, accounting for more than 5.6 percent of governmental expenditures compared to 4.2 percent in 2003.

As part of the report, LCI offers initial recommendations made by the Institute’s bi-partisan board of engaged citizens and policymakers in their pursuit to help alleviate some of the challenges faced by lawmakers in remediying the current system. The recommendations include:

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Recommendations for local governments on retiree benefits:
• The minimum age before a retiree qualifies for benefits should be gradually raised. A reasonable age to begin receiving benefits could be approximately 60.
• Localities should not include overtime or additional earnings/bonus pay in the base salary used to calculate pension benefits.

Recommendations for state government on health benefits:
• Among other options, Florida lawmakers should give much consideration to repealing current Florida law requiring the implicit subsidization of healthcare benefits for Florida local governmental retirees.
• State oversight by a relevant state agency should be provided in statute to manage local retiree health benefit obligations. This agency should establish standards and provide technical assistance, if desired, to local government staff and local officials.

Recommendations for state and local governments on administration and transparency:
• Cities should set a minimum contribution rate to ensure minimal contribution levels during good years and reduce the need to significantly increase contributions during periods of fiscal stress.
• The statutory restrictions on the use of premium tax dollars that link increases in tax premium funds to the provision of additional benefits should be reduced or removed. Cities and counties should be able to use premium tax dollars to cover their current pension obligations.
• Localities should improve the accessibility of funding, actuarial reporting and liabilities information to its taxpayers.

“Since abolishing the State Legislative Committee on Intergovernmental Relations, policy makers have less access to data, expert analysis and policy recommendations on these matters. We hope to fill that void in some part,” said Allison DeFoor, LCI board chair and managing partner at Go Green Strategies. “Changes need to be made now to ensure Florida’s local governments can get back on a path toward sustainability. LCI’s recommendations map out the high-priority issues that should be considered as we work toward that goal.”

For more than 20 years, LCI has studied and promoted creative solutions to key private and public issues. Beginning in 2005, the Institute published several reports in a series called, Tough Choices: Shaping Florida’s Future. These publications provided an in-depth analysis of Florida tax and spending policy including Medicaid, PreK-12 education, higher education, and children’s health and welfare. The research concluded Florida’s pattern of low spending and low taxes conflicted with the growing demands of the state’s residents, predicting trouble may be ahead. Three years later, Florida found itself amidst the unfortunate situation the Institute described in Tough Choices. As Myriam Marquez of The Miami Herald described it, “Now (early 2009) the tough times are here, and the Institute’s warnings – and its prescriptions for tax fairness and growth – couldn’t be more prescient.”

LCI’s newest research series, Tough Choices: Facing Florida’s Governments is focused on state and local government relationships. The Tough Choices research series is made possible by funding from the Jessie Ball duPont Fund. Over the next year, LCI will release further studies featuring analysis of trends in city and county spending and revenue, the effects of state mandates on Florida’s local governments, state proposals to limit local revenues, and differential effects of the economy and state mandates on fiscally distressed communities. Trouble Ahead is the first report released in this series.

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About the LeRoy Collins Institute: Established in 1988, the LeRoy Collins Institute is an independent, nonpartisan, non-profit organization which studies and promotes creative solutions to key private and public issues facing the people of Florida and the nation. The Institute, located in Tallahassee at Florida State University, is affiliated and works in collaboration with the State University System of Florida. Named in honor of former Florida Governor LeRoy Collins, the Institute is governed by a distinguished board of directors, chaired by Allison DeFoor, D.Min. Other board members include executives, local elected officials, and senior professionals from throughout the state.